



**Lee Memorial Health System
Foundation, Inc.**
(a Blended Component Unit of
Lee Memorial Health System)

Financial Statements
Year Ended September 30, 2023

Lee Memorial Health System Foundation, Inc.
(a Blended Component Unit of Lee Memorial Health System)

Financial Statements
Year Ended September 30, 2023

Lee Memorial Health System Foundation, Inc.
(a Blended Component Unit of Lee Memorial Health System)

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Independent Auditor's Report

The Board of Trustees
Lee Memorial Health System Foundation, Inc.
Ft. Myers, Florida

Opinion

We have audited the financial statements of Lee Memorial Health System Foundation, Inc. (the Foundation), which comprise the statement of financial position as of September 30, 2023, and the related statements of revenues, expenses, and changes in fund net position and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Foundation's basic financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the Foundation as of September 30, 2023, and the respective changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Foundation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, which raise substantial doubt about the Foundation's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.



Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, which raise substantial doubt about the Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 6-8) be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the



information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion nor provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

BDO USA, P.C.

January 29, 2024

Lee Memorial Health System Foundation, Inc.
(a Blended Component Unit of Lee Memorial Health System)

Management's Discussion and Analysis (Unaudited)

Introduction

Lee Memorial Health System Foundation, Inc. (the Foundation) is a not-for-profit corporation created by Lee Memorial Health System (the System) and community leaders to serve as a fundraising organization in support of the System. The Foundation is a blended component of the System and its vision is to be recognized as the exclusive organization of the System for the solicitation, receiving, recording, management, and disbursement of gift income in order to expand the System's capabilities in patient care, education, and research.

The System is the heart of the community, and the Foundation is the pulse that keeps it beating. Community support of the Foundation helps offset the costs of providing advanced technology, renowned physicians, expert nurses, nutritionists, pharmacists, and lifesaving care 365 days a year, 24 hours a day to the Foundation's ever-expanding community.

Donors to the System have helped raise hundreds of millions of dollars to fund lifesaving care for children and adults in Southwest Florida. Donations help fund critical research, advanced technology, and skilled and compassionate care, and help support the System's vision to be a national leader for the advancement of health and healing. The Foundation is truly grateful to all of its supporters.

The following discussion and analysis of the Foundation's financial performance presents an overview of its financial activities for the fiscal year ended September 30, 2023. This discussion and analysis has been prepared by management and should be read in conjunction with the accompanying audited financial statements and footnotes.

Overview of the Financial Statements

This annual report consists of a series of financial statements prepared in accordance with the Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments*.

The statement of net position includes all assets, liabilities, and any deferred inflows and outflows of resources of the Foundation. The statement of revenues, expenses, and changes in fund net position presents revenues earned and expenses incurred during the year. Activities are reported as either operating or non-operating, with gifts reported as operating revenues, and investment results reported as non-operating revenues. These statements are prepared using the accrual basis of accounting. Another way to assess the financial health of the Foundation is to look at the statement of cash flows. Its primary purpose is to provide relevant information about the sources and uses of cash of an entity during a given period.

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Lee Memorial Health System Foundation, Inc.
(a Blended Component Unit of Lee Memorial Health System)

Management's Discussion and Analysis (Unaudited)

Condensed Statement of Net Position (Unaudited)

September 30, 2023

Assets

Current assets	\$ 56,716,632
Non-current assets	19,325,452

Total Assets	\$ 76,042,084
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Liabilities

Current liabilities	\$ 6,136,632
Non-current liabilities	203,916

Total Liabilities	\$ 6,340,548
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Net Position

Restricted:

Nonexpendable	\$ 9,398,398
Expendable	54,676,651
Net investment in capital assets	36,362

Unrestricted	5,590,125
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Total Net Position	\$ 69,701,536
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The condensed statement of net position shows total assets of approximately \$76,042,000. Assets consist principally of cash and cash equivalents, pledges receivable, and investments of donated funds. These assets will eventually be requested for use by the System. Donations are given to carry out the mission of the System. Approximately \$5,590,000 is unrestricted as to use, approximately \$54,677,000 is expendable for use per the donor's intent to fund equipment and operational costs of the System, approximately \$9,398,000 is nonexpendable and is retained as an endowment, and approximately \$36,000 is net investment in capital assets. The nonexpendable funds are invested, and the interest is recorded in the expendable funds. The process ensures that the nonexpendable funds will remain to ensure future distributions in perpetuity.

Revocable pledges received from donors are not included in total assets.

Liabilities amounted to approximately \$6,341,000. Liabilities include accrued expenses, wages and benefits payable for the Foundation employees, amounts due for annuity payments, transfer fee payable, and amounts due to the System at September 30, 2023.

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Lee Memorial Health System Foundation, Inc.
(a Blended Component Unit of Lee Memorial Health System)

Management's Discussion and Analysis (Unaudited)

**Condensed Statement of Revenues, Expenses, and Changes in Fund Net Position
(Unaudited)**

Year ended September 30, 2023

Operating Revenues and Expenses	
Contributions	\$ 24,266,383
Operating expenses	20,875,882
<hr/>	
Operating Income	3,390,501
<hr/>	
Non-Operating Revenues (Losses)	
Interest and dividends	2,434,893
Unrealized and realized losses on investments, net	336,247
Change in value of charitable gift annuities	(4,454)
<hr/>	
Non-Operating Income	2,766,686
<hr/>	
Increase in Net Position	6,157,187
Net Position, beginning of year	63,544,349
<hr/>	
Net Position, end of year	\$ 69,701,536

The condensed statement of revenues, expenses, and changes in fund net position summarizes operating income and non-operating revenues (losses) for the fiscal year ended September 30, 2023. The Foundation's net position increased by approximately \$6,157,000 primarily due to donor contributions exceeding funding transfers to the System and income generated from investments.

For the fiscal year ended September 30, 2023, the Foundation recorded operating income of approximately \$3,391,000 as contributions exceeded operating expenses. Operating expenses, including salaries, benefits, supplies, purchased services, transfers to the System, and depreciation expense were approximately \$20,876,000 for the fiscal year ended September 30, 2023.

Cash Flows (Unaudited)

The statement of cash flows shows cash and cash equivalents decreased by approximately \$26,478,000 in fiscal year 2023.

Net cash provided by operating activities was approximately \$5,289,000 for fiscal year 2023.

Net cash used in non-capital financing activities was approximately \$1,362,000 for fiscal year 2023. The majority of this activity is the result of a change in amounts owed to the System and payment on the Foundation's transfer fee liability.

Net cash used in capital and related financing activities was approximately \$7,000 for fiscal year 2023.

Net cash used in investing activities was approximately \$30,399,000 for fiscal year 2023. This is primarily due to the investments purchased during the year, offset by income that was received through interest, dividends, and realized gains.

Financial Statements

Lee Memorial Health System Foundation, Inc.
(a Blended Component Unit of Lee Memorial Health System)

Statement of Net Position

September 30, 2023

Assets

Current Assets

Cash	\$	2,606,249
Restricted cash and cash equivalents		13,177,936
Accrued investment income receivable		421,557
Pledges receivable, net		6,383,397
Investments		34,119,420
Prepaid expenses		8,073

Total Current Assets 56,716,632

Non-Current Assets

Assets whose use is restricted	10,428,757
Indefinite life intangible asset	3,411,710
Pledges receivable, net	3,203,511
Charitable gift annuities	99,013
Capital assets, net	36,362
Donated assets held for sale	2,146,099

Total Non-Current Assets 19,325,452

Total Assets \$ 76,042,084

Liabilities

Current Liabilities

Accrued expenses	\$	59,426
Wages and benefits payable		103,487
Charitable gift annuities payable		19,200
Transfer fee payable		708,207
Due to Lee Memorial Health System - a related party		5,246,312

Total Current Liabilities 6,136,632

Non-Current Liabilities

Charitable gift annuities payable	63,122
Other liabilities	140,794

Total Non-Current Liabilities 203,916

Total Liabilities \$ 6,340,548

Net Position

Restricted:		
Nonexpendable	\$	9,398,398
Expendable		54,676,651
Net investment in capital assets		36,362
Unrestricted		5,590,125

Total Net Position \$ 69,701,536

The accompanying notes are an integral part of these financial statements.

Lee Memorial Health System Foundation, Inc.
(a Blended Component Unit of Lee Memorial Health System)

Statement of Revenues, Expenses, and Changes in Fund Net Position

Year ended September 30, 2023

Operating Revenues	
Contributions	\$ 24,266,383
Total Operating Revenues	24,266,383
Operating Expenses	
Salaries, wages, and benefits	2,673,450
Supplies and other	1,657,424
Purchased services	456,551
Transfers to Lee Memorial Health System - a related party	16,007,361
Depreciation	81,096
Total Operating Expenses	20,875,882
Operating Income	3,390,501
Non-Operating Income (Loss)	
Interest and dividends	2,434,893
Unrealized and realized gain on investments, net	336,247
Change in value of charitable gift annuities	(4,454)
Total Non-Operating Income	2,766,686
Increase in Net Position	6,157,187
Net Position, beginning of year	63,544,349
Net Position, end of year	\$ 69,701,536

*The accompanying notes are an integral part
of these financial statements.*

Lee Memorial Health System Foundation, Inc.
(a Blended Component Unit of Lee Memorial Health System)

Statement of Cash Flows

Year ended September 30, 2023

Cash Flows from Operating Activities	
Contributions	\$ 20,621,670
Proceeds from sales of contributed investments	913,833
Cash paid for operating expenses	(1,831,589)
Cash paid to Lee Memorial Health System	(14,414,750)
Net Cash Provided by Operating Activities	5,289,164
Cash Flows from Non-Capital Financing Activities	
Proceeds from sales of contributed investments restricted for long-term purposes	195,897
Cash paid to Lee Memorial Health System	(863,082)
Cash paid for transfer fee payable	(682,342)
Cash paid for charitable gift annuities payable	(12,342)
Net Cash Used in Non-Capital Financing Activities	(1,361,869)
Cash Flows from Capital and Related Financing Activities	
Purchases of capital assets	(6,515)
Net Cash Used in Capital and Related Financing Activities	(6,515)
Cash Flows from Investing Activities	
Investment income received	912,249
Proceeds from sale of investments	3,727,321
Purchase of investments	(35,042,185)
Proceeds from beneficial interests in remainder trusts	3,303
Net Cash Used in Investing Activities	(30,399,312)
Net Decrease in Cash and Cash Equivalents	(26,478,532)
Cash and Cash Equivalents, beginning of year	42,262,717
Cash and Cash Equivalents, end of year	\$ 15,784,185
Unrestricted cash and cash equivalents	\$ 2,606,249
Restricted cash and cash equivalents	13,177,936
Total Cash and Cash Equivalents	\$ 15,784,185
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating income	\$ 3,390,501
Adjustments to reconcile operating income to net cash provided by operating activities:	
Noncash contributions of investments	(1,109,730)
Proceeds from sales of contributed investments	913,833
Provision for doubtful pledges receivable	205,306
Depreciation	81,096
Amortization of discount on pledges receivable	244,517
Impairment loss on donated assets held for sale	55,675
Donated land held for sale	(2,000,000)
Changes in:	
Pledges receivable	3,296,911
Prepaid expenses	(4,025)
Accrued expenses, wages and benefits payable, and other liabilities	215,080
Net Cash Provided by Operating Activities	\$ 5,289,164

The accompanying notes are an integral part of these financial statements.

Lee Memorial Health System Foundation, Inc.
(a Blended Component Unit of Lee Memorial Health System)

Notes to Financial Statements

1. Reporting Entity

The Lee Memorial Health System Foundation, Inc. (the Foundation) is a not-for-profit 501(c)(3) corporation created by Lee Memorial Health System (the System) and community leaders to serve as a fundraising organization in support of the System. The Foundation is considered a blended component of the System, and the specific and primary purpose for which it was formed was to operate for the advancement of the mission of the System by engaging in fundraising and the distribution of its funds.

2. Summary of Significant Accounting Policies

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, including all applicable effective statements of the Governmental Accounting Standards Board (GASB). The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Accordingly, all assets, deferred outflows of resources, liabilities, and deferred inflows of resources are included in the statement of net position. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recognized when incurred, regardless of the timing of the related cash flows.

Non-exchange transactions, in which the Foundation receives (or gives) value without directly giving (or receiving) equal value in exchange, include certain grants and donations. Revenues are recognized, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the grantor or donor have been met, if probable of collection.

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities and deferred inflows of resources, and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Restricted Cash and Cash Equivalents

Cash consists of amounts held as bank deposits. Restricted cash and cash equivalents consist of amounts held as bank deposits and highly liquid investments with original maturities of three months or less at the date of purchase and are restricted by donors for specific purposes or are held under other regulatory or contractual agreements.

The Foundation places its cash and restricted cash and cash equivalents with what management believes to be high-credit quality financial institutions. Included in cash and restricted cash and cash equivalents are bank deposits that may be in excess of the federal insured amount of \$250,000. However, the Foundation is a Qualified Public Depositor with the state of Florida. As such, deposits at Qualified Public Depositories are insured at the full amount on deposit. Management does not anticipate nonperformance risk by the financial institutions.

Lee Memorial Health System Foundation, Inc.
(a Blended Component Unit of Lee Memorial Health System)

Notes to Financial Statements

Investments and Investment Income

Investment securities held by the Foundation, including investments in companies that are deemed to be alternative investment funds are carried at fair value. Realized gains and losses, based on the specific identification method, unrealized gains and losses, and interest and dividend income are included in non-operating revenues in the statement of revenues, expenses, and changes in fund net position when earned.

At September 30, 2023, the Foundation's investment in a company deemed to be an alternative investment fund is valued at net asset value (NAV) per share. The approximate ownership interest in the company is as follows:

September 30, 2023

	Ownership Interest (%)
SEI Core Property Fund, LP	0.06
SEI Vista Fund, Ltd	0.21

Assets Whose Use is Restricted

Assets whose use is restricted consist of investments restricted by donors for specific purposes.

Pledges Receivable

Pledges are unconditional promises to make future payments. Pledges meeting the requirements specified by GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions* (GASB No. 33), are included in the financial statements as pledges receivable and recognized as revenue in the period pledged. Pledges extending beyond one year are discounted to recognize the present value of the future cash flows. The discounts on those amounts are computed using a risk-adjusted discount rate applicable to the years in which the promises are received. Amortization of the discounts is included in contributions revenue. In addition, pledges are recorded net of an allowance. The allowance for uncollectible pledges is determined by management.

Conditional pledges, which depend on the occurrence of a specified future or uncertain event, are recognized when the conditions are substantially met.

Donated Assets Held for Sale

The Foundation recognizes donated assets held for sale as contributions in the year the donation is made. At September 30, 2023, donated assets held for sale consisted of donated artwork and land. The Foundation reports donated assets held for sale at fair market value when donations are received. During the year ended September 30, 2023, the Foundation received a land donation valued at \$2,000,000, which is included in contributions on the statement of revenues, expenses and changes in fund net position. The estimated fair value of the land was determined by considering the comparable sales prices of similar land in the real estate market. Amounts received upon sale of donated assets in excess of the fair market value at the time of donation are included in contributions in the statement of revenues, expenses, and changes in fund net position at the time of the sale. No donated assets held for sale were sold during the year ended September 30, 2023.

Lee Memorial Health System Foundation, Inc.
(a Blended Component Unit of Lee Memorial Health System)

Notes to Financial Statements

Indefinite Life Intangible Asset and Transfer Fee Payable

The Foundation's indefinite life intangible asset represents certain intangible rights that were purchased by the Foundation from an unrelated third party, which was recorded at a purchase price of \$3,411,710. A transfer fee payable was also recorded for the purchase price, with \$708,207 outstanding at September 30, 2023, payable in full in fiscal year 2024. These rights were determined to have an indefinite life. The Foundation reviews this asset for impairment on an annual basis, or more frequently if certain circumstances or events indicate the carrying amount of the asset may not be recoverable. If necessary, an impairment loss would be recognized equal to the excess of the carrying amount of the asset over its fair value through a charge to operating expenses and a credit to the carrying amount of the asset. There was no impairment of this asset during the year ended September 30, 2023.

Beneficial Interests in Remainder Trusts

Over the years, the Foundation has been named the remainder interest beneficiary of several donor's trusts. These beneficial interest agreements include Charitable Gift Annuities, which are held and administered by the Foundation (see policy below), and Charitable Remainder Annuity Trusts (CRATs), which are held and administered by a third-party trustee. The Foundation's beneficial interest in CRATs that meet certain criteria is recognized as an asset and a deferred inflow of resources. The asset is initially recorded at fair value and is remeasured at fair value at each financial reporting date. Changes in the fair value of the CRATs are also recognized as increases or decreases in the related deferred inflow of resources. Upon termination of the CRATs, the related asset and deferred inflow of resources are eliminated, and revenue is recognized for any beneficial interest received. The CRATs were terminated during fiscal year 2022.

Charitable Gift Annuities and Charitable Gift Annuities Payable

Charitable gift annuities are planned giving vehicles, whereby donors gift assets in exchange for annuity payments over their lifetime or that of their beneficiaries. Assets contributed are separately invested by the Foundation and are used to fund payments to the annuitants. Payments are made in accordance with the respective agreements. The Foundation records the assets received at fair value. Increases or decreases to the asset are recognized as an increase or decrease in deferred inflow of resources. The annuity payable liability is recorded at the present value of the estimated cash payments of the annuity for the remainder of the donor's life, which is remeasured on an annual basis. All actuarial assumptions used in this calculation are in accordance with actuarial life expectancy set forth in the Internal Revenue Code (the Code). Changes in this remeasurement are recognized as an increase or a decrease in the related deferred inflow of resources. Upon termination, the deferred inflow of resources associated with the agreement is recognized as revenue. The elimination of any remaining annuity liability is recognized as a gain. Annuities that mature are used to fulfill the purposes that were set forth in the original annuity agreement. The fair value of these assets at September 30, 2023 was \$99,013 and is shown as charitable gift annuities on the statement of net position.

Net Position

To ensure observance of limitations and restrictions placed on the use of resources available to the Foundation, net position is classified and reported as follows, based on the existence or absence of donor-imposed restrictions.

Lee Memorial Health System Foundation, Inc.
(a Blended Component Unit of Lee Memorial Health System)

Notes to Financial Statements

Restricted - Non-Expendable Net Position includes permanent endowments. Such funds are generally subject to donor restrictions requiring that the principal be invested in perpetuity for the purpose of producing income and appreciation that may be expended or added to principal in accordance with the donor's wishes.

Restricted - Expendable Net Position relates to contributions designated by donors for use by particular related entities or programs or for specific purposes or functions of the System. Income and change in fair market value of permanent endowments are classified as restricted-expendable net position unless otherwise specified by the donor.

Net Investment in Capital Assets Net Position equals the balance of capital assets, net of accumulated depreciation, reduced by amounts due under outstanding borrowings used to finance the purchase or construction of those assets (if applicable).

Unrestricted Net Position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

When both restricted and unrestricted resources are available for use, the Foundation uses the restricted resources first, then unrestricted resources as needed.

Operating Revenues and Expenses

Contributions and pledges meeting the requirements of GASB No. 33 are recognized as operating revenues in the period received or pledged. Disbursements in support of the System and fundraising and administrative expenses incurred in conducting the business of the Foundation are presented in the financial statements as operating activities in the period in which the expense was incurred. Operating expenses paid by the System on behalf of the Foundation are recognized as contribution revenue.

Permanent Endowments

The Foundation follows the Uniform Prudent Management of Institutional Funds Act (UPMIFA) adopted by the state of Florida in July 2012. UPMIFA does not set specific expenditure limits; instead, a charity can spend the amount the charity deems prudent after considering the donor's intent that the endowment continues permanently, the purpose of the fund, and relevant economic factors. The current annual payout rate policy approved by the Board of Trustees of the Foundation is 5% of the average fair market value of the permanent endowment funds over the preceding three-year period. The actual payout rate for the year ended September 30, 2023 was 2.98%.

For the year ended September 30, 2023, the permanent endowment funds incurred a net appreciation in value amounting to \$1,238,982, which was recorded as an addition to restricted expendable net position.

Income Taxes

The Foundation is exempt from federal income tax under Section 501(c)(3) of the Code and from state income taxes under the provisions of Chapter 220.13 of the Florida Income Tax Code. The Code provides for taxation of unrelated business income under certain circumstances. The Foundation has no material unrelated business income; however, such status is subject to final determination upon examination of the related income tax returns by the appropriate taxing authorities.

Lee Memorial Health System Foundation, Inc.
(a Blended Component Unit of Lee Memorial Health System)

Notes to Financial Statements

3. Investments and Assets Whose Use is Restricted

The Foundation primarily invests its resources in domestic and international equity and fixed-income mutual funds, fixed income securities and alternative investment funds. The Foundation's investment portfolios include investments available for current operations, as well as investments designated as assets whose use is restricted. The Foundation's investment policy authorizes a strategic asset allocation that is designed to provide an optimal return over the Foundation's investment horizon within the Foundation's risk tolerance and cash requirements.

Fair Value

The Foundation categorizes its fair value measurements within the fair value hierarchy established by GASB Statement No. 72, *Fair Value Measurement and Application*. The hierarchy is summarized in three levels:

Level 1 - This level consists of observable inputs that reflect quoted prices for identical investments.

Level 2 - This level consists of other significant observable inputs, including quoted prices for similar investments, interest rates, or credit risk.

Level 3 - This level consists of unobservable inputs, including entity-specific inputs or inputs derived through extrapolation or interpolation that cannot be derived from market data.

The recurring fair value measurement of investments is as follows:

September 30, 2023

	Fair Value	Level 1	Level 2	Level 3
Investments, measured at fair value:				
Mutual funds				
Domestic equity mutual funds	\$ 3,789,273	\$ 3,789,273	\$ -	\$ -
International equity mutual funds	3,409,570	3,409,570	-	-
Domestic fixed-income mutual funds	3,914,652	3,914,652	-	-
International fixed income mutual funds	540,121	540,121	-	-
Total Mutual Funds	11,653,616	11,653,616	-	-
Fixed Income Securities				
US Government and agency obligations	30,654,187	-	30,654,187	-
Total Fixed Income Securities	30,654,187	-	30,654,187	-
Total Investments, measured at fair value	\$ 42,307,803	\$ 11,653,616	\$ 30,654,187	\$ -
Investments, measured at NAV				
SEI Core Property Fund, LP	\$ 1,440,688			
SEI Vista, Ltd	682,192			
Total Investments, measured at NAV	2,122,880			
Other investments				
Money Market Funds	216,507			
Total Other Investments	216,507			
Total	\$ 44,647,190			

Lee Memorial Health System Foundation, Inc.
(a Blended Component Unit of Lee Memorial Health System)

Notes to Financial Statements

The Foundation has investment management agreements with SEI Investments Company (SEI) and Finemark National Bank & Trust to manage approximately 30.6% and 69.1%, respectively, of its investments, which totaled \$13,677,483 and \$30,870,694, respectively, at September 30, 2023. These are recorded as investments and assets whose use is restricted on the statement of net position. The remaining 0.3% of investments are being managed by the Foundation as charitable gift annuities, which totaled \$99,013 at September 30, 2023.

With the exception of investments measured at NAV, the Foundation can liquidate funds within the trade date plus one business day. SEI Core Property Fund, LP requires a 30-day notice for termination and full liquidation of public market funds held in the portfolio. The SEI Core Property Fund, LP can liquidate 90% of the holdings quarterly with a 95-day pre-notification. SEI holds 10% of total redemptions until completion of SEI Core Property Fund, LP's next annual audit. The SEI Vista Fund, Ltd. can liquidate 25% quarterly, with a 95-day pre-notification. SEI holds 10% of total redemptions until completion of the funds' audit for these hedge funds.

The Foundation has assessed the custodial credit risk, concentration of credit risk, credit risk, and interest rate risk of its investments and assets whose use is restricted below.

- a. *Custodial Credit Risk* - The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Foundation will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Foundation's deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not held in the Foundation's name.

At September 30, 2023, the Foundation's investments were not exposed to custodial credit risk since the full amount of investments and assets whose use is restricted were insured or registered, or securities held by the Foundation or its agent, are in the Foundation's name.

- b. *Concentration of Credit Risk* - This category is the risk of loss attributed to the magnitude of the Foundation's investment in a single issuer. Disclosure is required for investments in any one issuer that represent 5% or more of total investments. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, alternative investment funds, and other pooled investments are excluded from this requirement. The Foundation has no investments from any one such issuer that exceed 5%.
- c. *Credit Risk* - This category is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Foundation's investment policy provides guidelines for its fund managers and lists specific allowable investments. The policy provides for the utilization of varying styles of managers so that portfolio diversification is maximized, and total portfolio efficiency is enhanced.

The Foundation currently invests in mutual funds. Due to the nature of mutual funds, credit risk rating is not consistent with the credit risk ratings of individual stocks that are measured by Moody's Investors Services and Standard & Poor's. These rating agencies do not provide credit risk rating of mutual funds.

- d. *Interest Rate Risk* - This category is the risk that an investment's value will be adversely affected due to a change in the level of interest rates. The Foundation's investment policy authorizes a strategic asset allocation that is designed to provide an optimal return over the

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Foundation's investment horizon within the Foundation's risk tolerance and cash requirements.

The distribution of the Foundation's investments and assets whose use is restricted by maturity is as follows:

September 30, 2023

	Fair Value	Investment Maturities				N/A
		Less than 1 Year	13 to 24 Months	25 to 60 Months	Greater than 60 Months	
Mutual funds	\$ 11,653,616	\$ -	\$ -	\$ -	\$ -	\$ 11,653,616
Fixed income securities	30,654,187	30,654,187	-	-	-	-
Investments measured at NAV	2,122,880	-	-	-	-	2,122,880
Other investments	216,507	216,507	-	-	-	-
	\$ 44,647,190	\$ 30,870,694	\$ -	\$ -	\$ -	\$ 13,776,496

During the year ended September 30, 2023, the Foundation recorded net realized losses of \$96,591 from the sale of investments. The calculations of realized gains and losses are independent of the calculation of the net increase in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in the fair value of investments reported in the prior year.

The total unrealized gain on investments held at September 30, 2023 was \$432,838. Unrealized gains or losses on investments resulting from fair value fluctuations are recorded in the accompanying statement of revenues, expenses, and changes in fund net position in the period such fluctuations occur.

4. Pledges Receivable

Pledges receivable are unconditional promises and consist of the following:

September 30, 2023

Pledges receivable	\$ 10,961,191
Less:	
Allowance for uncollectible pledges	(850,425)
Discount for future payments (3.08% - 4.60%)	(523,858)
Pledges Receivable, Net	\$ 9,586,908
Current pledges receivable, net	\$ 6,383,397
Non-current pledges receivable, net	3,203,511
	\$ 9,586,908

5. Related Party Transactions

Operating expenses paid by the System on behalf of the Foundation were \$3,257,498 for the year ended September 30, 2023. The Foundation has recognized these payments as operating expenses and contribution revenue on the accompanying statement of revenues, expenses, and changes in

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fund net position. Additionally, the System allocated corporate overhead expenses of \$538,634 to the Foundation during the year ended September 30, 2023, which represents the value of services provided by the System. These amounts are recognized as operating expenses and due to the System in the accompanying financial statements.

On a quarterly basis, the Foundation transfers funds to the System based on reimbursements requested for expenses incurred. The Foundation recorded \$16,007,360 as transfers to the System during the year ended September 30, 2023. The amount due to the System from the Foundation was \$5,246,312, which relates to reimbursement requests that had not yet been transferred to the System as of September 30, 2023.

6. Capital Assets

Capital asset additions, retirements, and balances were as follows:

	Balance, September 30, 2022	Additions and Transfers	Retirements and Transfers	Balance, September 30, 2023
Equipment , at historical cost	\$ 131,539	\$ 6,515	\$ (12,227)	\$ 125,827
Less: accumulated depreciation	(84,421)	(9,596)	4,552	(89,465)
Capital Assets, Net	\$ 47,118	\$ (3,081)	\$ (7,675)	\$ 36,362

Depreciation expense was \$81,096 for the year ended September 30, 2023, which includes \$70,340 of depreciation expense allocated by the System as overhead (see Note 5).

7. Contingencies

Restricted contributions and grants require the fulfillment of certain conditions as set forth by the donors. Failure to fulfill the conditions of the donor could result in the return of funds to donors. Management has determined that the risk of a return of contributions is minimal.

8. Subsequent Events

The Foundation has assessed the impact of subsequent events through January 29, 2024, the date the audited financial statements were issued and has concluded that there are no such events that require adjustment to or disclosure in the financial statements.